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September 13, 2010

AGENDA ITEM 4

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Capital Market Expectations
- II. PROGRAM:** Asset Allocation / Risk Management
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

Summary

The purpose of this item is to provide the Investment Committee (Committee) with additional information as part of the ongoing education series in preparation for the ALM Workshop.

This presentation on Capital Market Expectations by Robert D. Arnott (Attachment 1) is the last in a series of discussions with the Committee on topics related to the Asset Liability Management (ALM) process. Attachment 2 represents the timeline of this process which lists topics addressed.

Rob Arnott is the Chairman of Research Affiliates, LLC. He has published numerous articles in the Financial Analyst Journal, Journal of Portfolio Management and other financial journals. His projections of capital market returns are lower than those of CalPERS consultants and the consensus assumptions presented by staff at the June Committee meeting.

V. STRATEGIC PLAN:

This item addresses Strategic Plan Goals VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and IX, achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

This item is for information only.

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